

MERCER

Government Human Services Consulting

Presentation to State of Washington CON Task Force

June 28, 2006

Maine Dirigo Health — Year 2 Certificate of Need / Capital Investment Fund (CON/CIF) Savings Calculations



Marsh & McLennan Companies



Agenda



Agenda

Items for today's discussion

- Meeting Purpose and Goals
- Dirigo Health Care Reform History and Background
- CON/CIF: Hospital and Non-Hospital
- Year 2 CON/CIF Savings Calculations
- Questions



Presentation Purpose & Goals



Presentation Purpose & Goals

Purpose:

- Provide the Washington CON TF with a summary of Maine Dirigo Health Reform regarding Year 2 of the savings attributable to CON/CIF.

Goals:

- Summarize highlights of Dirigo Health Care Reform.
- Review the CON/CIF initiative.
- Review Year 2 savings calculations for CON/CIF.



Dirigo History & Background



Dirigo History & Background

- So, what does “Dirigo” mean?



Dirigo History & Background

- The Dirigo Health Reform Act (Reform Act) was developed by Governor Baldacci's Office of Health Policy and Finance, health policy experts and key stakeholders - signed into law June 18, 2003.
- The purpose of the Reform Act was to make quality, affordable health care available to every Maine citizen within 5 years, initiate new processes for containing costs, and improve health care quality.
- The Act created the Dirigo Health Agency (DHA). DHA maintains authority over the design of health care benefits and defines allowable administrative costs to provide health care to the working poor and small employers.
- Initial enrollees in Dirigo Health product were effective January 2005.
- Dirigo is financed through employer contributions, individual contributions, state general revenue (first year only), Medicaid dollars for those eligible, and funds obtained through recovery of savings from a series of savings initiatives.



Dirigo History & Background (continued)

Year 2 Calculations and Savings:

- Cost savings are determined annually.
- CON/CIF savings were one of the key savings initiatives for Year 2.
- On behalf of DHA, Mercer presented the savings calculations related to Year 2 CON/CIF to the Dirigo Board (the Board) on May 8, 2006.
- CON/CIF savings of \$5.4 million were approved by the Board on June 6.



Certificate of Need / Capital Investment Fund

Hospital and Non-Hospital

CON/CIF: Hospital and Non-Hospital

- Legislature imposed one year moratorium on CON approvals and required the Governor's office to establish an annual limit (CIF) on CON spending once the moratorium was lifted:
 - capital investment and new technology add costs to the system that are passed on to payers and purchasers; and
 - the CON program's purpose is to ensure that investments are made only for projects that meet health care needs consistent with Maine's State Health Plan.
- CIF is calculated annually, with allocations for:
 - large projects for hospitals;
 - small projects for hospitals;
 - large projects for non-hospital facilities; and
 - small projects for non-hospital facilities.



CON/CIF: Hospital and Non-Hospital

- Summary of Maine's thresholds for CON review
 - Capital expenditure of \$2.4 million.
 - Major medical equipment purchase of \$1.2 million.
 - Capital expenditure of \$110,000 associated with the addition of a new health service.
 - Incremental 3rd year operating cost of \$400,000 for a new health service.



Year 2 CON/CIF Savings Calculations

Year 2 CON/CIF Savings Calculations

Overview:

- This is one option for calculating savings — there are potentially others.
- This calculation will be updated when final approvals have been made for large projects for hospitals in the calendar year 2006 CON cycle.
- A similar methodology and calculation will be used for small projects for hospitals and for large and small projects in non-hospital facilities.
- The Year 2 calculation involves a 2-part process.

Year 2 CON/CIF Savings Calculations

Calculations — Part 1:

- Hospitals A – C applications were withdrawn or a smaller project developed to get under the threshold.

Facility Name	Project Description	Expected 3rd Year	3rd Yr Operating Costs	Subject to Review Threshold	3rd year Savings	Annual Interest Rate	CY 2006 Present Value Savings
A	Relocate Dialysis Program	CY 2009	\$ 600,000	\$ 400,000	\$ 200,000	4.87%	\$ 173,411
B	Build 150 bed replacement hospital	CY 2010	\$ 3,000,000	\$ 400,000	\$2,600,000	4.90%	\$ 2,147,604
C	Renovations & Improvements to Patient Billing, Lobby, Emergency Department and Space being vacated by Obstetrical & Neonatal	CY 2009	\$ 2,250,000	\$ 400,000	\$1,850,000	4.87%	\$ 1,604,050

Part 1 Expected Savings discounted to 2006 value: \$3,925,065

Year 2 CON/CIF Savings Calculations

Calculations — Part 2:

Large Hospital Projects Submitted for CON Review

Plan Indicator	Letter of Intent (LOI) Date	Project	Cap Cost	Base Op Cost	Base Costs after spreading
A	6/13/2005	Construction/renovation of Surgical Service Facilities	\$7,875,000	\$771,139	\$771,139
B	9/28/2005	Build New Cancer Center	\$42,000,000	\$4,683,890	\$1,561,297
C	9/30/2005	Relocate Critical Care Units on Hospital Campus	\$8,466,997	\$982,102	\$982,102
D	9/30/2005	Close X campus and relocate/consolidate services to Y Campus	\$107,299,000	\$4,407,158	\$1,469,053
		Total	\$165,640,997	\$10,844,289	\$4,783,590

Total Dollars Available for Large Hospital Projects in the Capital Investment Fund (CIF)	\$ 3,477,403
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Year 2 CON/CIF Savings Calculations

Calculations — Part 2 (continued):

- Savings are derived from capped funding for CIF for 2006.
- Presently not all hospital CONs have been approved for 2006.
- This calculation will be finalized when the hospital CON approvals have been determined, and the total savings may change.
- However, an estimation can be made based on the total dollars available in the CIF for large hospital projects for 2006.
- Not all hospitals that submitted a CON can be approved under the current CIF limit.
- A list of every combination of approved projects was made to calculate all possibilities of third year costs to the system, as available May 2, 2006 — see next slide.
- To be conservative, savings results from the lowest possible combination of overall CON amounts denied as compared to the CIF limitations.

Year 2 CON/CIF Savings Calculations

Calculations — Part 2 (continued):

Approval of all four projects (A, B, C, D) was not possible, since their combined 3rd year operating cost exceeded the available CIF.

Possible Combinations of Projects

Plans	Base Op Cost	Base Costs after spreading Proj >\$2mil	Approval Possible	3rd year Savings
A,B,C	\$ 6,437,131	\$ 3,314,538	Yes	\$ 4,407,158
A,B,D	\$ 9,862,187	\$ 3,801,488	No - Exceeds Available CIF	N/A
A,C,D	\$ 6,160,399	\$ 3,222,294	Yes	\$ 4,683,890
B,C,D	\$ 10,073,150	\$ 4,012,451	No - Exceeds Available CIF	N/A
A,B	\$ 5,455,029	\$ 2,332,436	Yes	\$ 5,389,260
A,C	\$ 1,753,241	\$ 1,753,241	Yes	\$ 9,091,048
A,D	\$ 5,178,297	\$ 2,240,192	Yes	\$ 5,665,992
B,C	\$ 5,665,992	\$ 2,543,399	Yes	\$ 5,178,297
B,D	\$ 9,091,048	\$ 3,030,349	Yes	\$ 1,753,241
C,D	\$ 5,389,260	\$ 2,451,155	Yes	\$ 5,455,029
A	\$ 771,139	\$ 771,139	Yes	\$ 10,073,150
B	\$ 4,683,890	\$ 1,561,297	Yes	\$ 6,160,399
C	\$ 982,102	\$ 982,102	Yes	\$ 9,862,187
D	\$ 4,407,158	\$ 1,469,053	Yes	\$ 6,437,131
None	\$ -	\$ -	Yes	\$ 10,844,289



Year 2 CON/CIF Savings Calculations

Calculations — Part 2 (continued):

Part 2 Lowest expected savings: \$1,753,241 — the amount of savings assuming projects B and D are approved.

Discounted back to 2006, the value is \$1,448,180.

2006 Total CON/CIF savings — Parts 1 and 2: \$5,373,245



Questions?



Questions

For further questions on Maine's CON/CIF program and operations, contact:

Catherine Cobb

207 287 2979

Director of the Division of Licensing and Regulatory Services,

Department of Health and Human Services

221 State Street

Augusta, ME 04333

Peter Kraut

207 624 7444

Governor's Office of Health Policy and Finance

15 State House Station

Augusta, ME 04333



Questions

For further questions on Maine's CON/CIF savings methodology or calculations, contact:

Mercer Government Human Services Consulting

Cynthia Smith 206 808 8420

Kevin Russell 602 522 6559